

# Ramsey County Environmental Response Fund Impact Study



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## **Section I: Introduction**

### **Overview**

Ramsey County collects a small percentage of the mortgage registry and deed tax charged to property owners to help fund the clean-up of contaminated land, or brownfields, through a program called the Environmental Response Fund (ERF). ERF funding is then applied, along with private investment and other public funding sources, to redevelopment projects within the county. As a fully developed county, almost all new development in Ramsey County takes place on brownfields, elevating the ERF and similar funding mechanisms to a high level of importance in environmental remediation and sustainable development.

Since the program's inception, a total of 47 projects have received a combined \$10,534,577 in ERF funding and 200 acres have been remediated. A competitive application and selection process is used to distribute funding annually to qualifying redevelopment projects. Although the fund has been successful in cleaning up brownfields, little is known about the broader outcomes of projects completed after 2012, which is the last time an impact assessment was conducted.

### **Objectives**

To understand the long-term impact of ERF funding on community and economic development, a team of students collaborated with Ramsey County staff and the University of Minnesota's Resilient Communities Project through the Economic Development Fellows Program in the University of Minnesota's Office of the Vice President for Research to assess the outcomes of ERF-funded projects and how they compare to the estimated impacts in the original application proposal to the program.

## Main Findings

The following are the main findings from the research team's analysis:

- Funding provided by the ERF program leveraged **4.5 times** the amount of private and public investment dollars.
- Funding provided by the ERF program generated **2 times** the amount of property tax revenue, compared to pre-investment property tax dollar amounts.
- Ending Market Value (EMV) of properties within a 2-mile radius of ERF projects shifted from a 0.36% decrease per year prior to ERF investment and redevelopment of the properties to a **2.73% increase per year** over a 10-year period after ERF funding was issued.
- Property tax revenue within a 2-mile radius of ERF projects **increased** at a rate of **0.49%** per year as compared to a **0.32%** per year **decrease** before funding.
- A total of 3,502 new housing units were created through projects that received ERF funding, of which nearly half (47.7%) qualified as affordable housing.
- Ramsey County's ERF is a unique program nationally.
- Additional staff and resources are needed to achieve the full impact potential of the program.

## Section II: Impact Analysis

### Private and Public Investments

To determine the private and public investments leveraged by ERF funding in Ramsey County, we analyzed all funded projects as of February 2018.

Since the creation of the ERF program, a total of 47 projects have received **\$10,534,577** for various types of brownfield cleanup. During the same time, the ERF program leveraged **\$47,572,910** in public and private funding, more than **4.5 times** the amount of the original investment (see Table 1).

**Table 1: Total Funding Leveraged by ERF, 2012 through February 2018**

<b>Public Funding Total</b>	<b>\$40,745,623</b>
Minnesota Department of Employment and Economic Development (DEED)	\$14,698,004
Metropolitan Council Tax Base Revitalization Account (TBRA)	\$7,519,909
Bonds (General Obligation/Revenue)	\$6,580,000
Metro Transit	\$3,889,360
U.S. Environmental Protection Agency (EPA)	\$3,177,537
Municipalities	\$2,733,082
Tax increment financing	\$1,358,000
U.S. Treasury Capital Magnet Fund	\$350,000
Minnesota PetroFund	\$12,937
Other	\$426,794
<b>Private Funding Total</b>	<b>\$6,827,287</b>
<b>Grand Total</b>	<b>\$47,572,910</b>

Most of the public funding that was leveraged came from local agencies such as the Minnesota Department of Employment and Economic Development (DEED) and Metropolitan Council Tax Base Revitalization Account (TBRA). However, federal grants from the U.S. Environmental Protection Agency (EPA) and the U.S. Treasury Capital



Magnet Fund also provided a significant amount of funding, in addition to funding from local municipalities.

## Property Value and Tax Revenue

To determine the property value and tax revenue change after funding of projects through the ERF program, we used Ramsey County property value and tax revenue data from 2000–2018. Data was obtained from the Ramsey County Assessor’s Office.

We first analyzed the total property tax revenue generated from projects funded through 2018. Due to data limitations, a total of 33 properties were included in this analysis. These properties received a total of a total of **\$8,127,594** in ERF funding, and generated a total of **\$16,229,787** in property tax revenue. This represents approximately **twice the amount** of tax revenue generated compared to the amount of ERF funding provided for these projects.

According to a working paper from the National Bureau of Economic Research, brownfield cleanup will generally improve property values of adjacent properties within a roughly 1.3-mile radius.<sup>1</sup> Working from this assumption, we identified all properties within a 2-mile radius of each ERF project. We then compared the pre- and post-ERF funding data on Estimated Market Value (EMV) and tax revenue for each site (see Figures 1 and 2).

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<sup>1</sup>Kevin Haninger, Lala Ma, and Christopher Timmins, 2017, “The Value of Brownfield Remediation,” <https://www.nber.org/papers/w20296>.

**Figure 1: Percent Change in Estimated Market Value, Pre- and Post- ERF Funding**

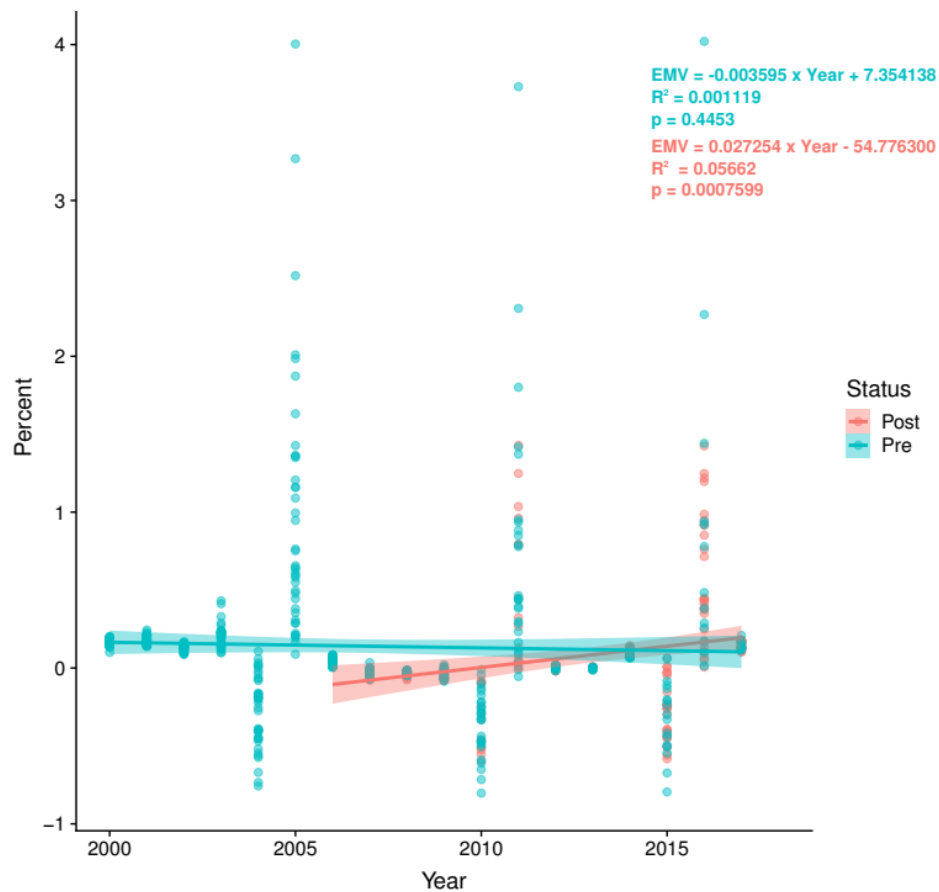


Figure 1 shows that prior to ERF funding, the EMV of properties within a 2-mile radius of the property in question generally experience a gradual, although statistically insignificant, decline of **-0.36%** per year (blue line). Over the 10-year period after ERF funding, these properties experienced a **2.73%** increase in EMV per year (red line).

**Figure 2: Net Percent Change in Tax Revenue, Pre- and Post- ERF Funding**

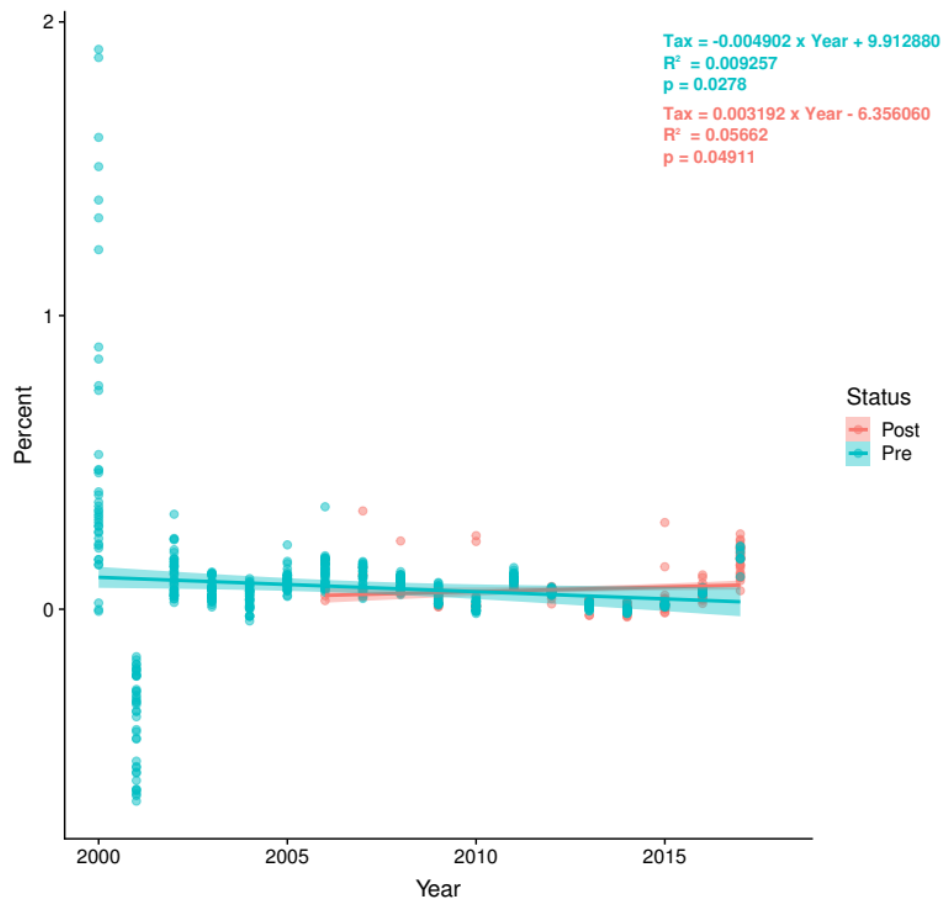


Figure 2 shows that prior to ERF funding, the net tax collected from properties within a 2-mile radius of the property in question also experienced a gradual and consistent decline of **-0.49%** per year (blue line). In the 10-year period after the ERF funding, these properties experienced a **0.32%** increase in tax revenue generated per year (red line).

Overall, ERF funding appears to have a positive effect on property value, improving property tax revenue not only for the funded project but also for surrounding properties. However, because this analysis did not control for other factors that might contribute to increased property values (e.g., transit or other public investments,

redevelopment of adjacent properties, marketwide increases in property values in the region, etc.), this conclusion must be treated with caution.

## **Housing and Job Creation**

Based on application proposals that received ERF funding, redevelopment projects that included housing as a component of the development added a total of 3,502 housing units. Of these, 1,673 (47.77%) are affordable units.

In their application proposals for ERF funding, developers also reported that they would create an additional 9,490 jobs after project completion. Many of the jobs associated with these projects were likely temporary or construction-related.

We were unable to obtain complete data on permanent job creation or the number of affordable housing units created. However, in speaking with current property managers at properties redeveloped with ERF assistance, it became clear that the numbers of expected jobs and housing units described in the original applications was not especially reflective of the numbers that resulted upon completion of the development, and sometimes differed significantly. To assess the impact of ERF funding on permanent job creation, we recommend that Ramsey County conduct a comprehensive follow-up survey of ERF recipients.

## Section III: Interviews

We interviewed several developers in the Twin Cities metro area regarding their experience with the ERF application process. Here are the most important takeaways from the interviews.

- “It’s a tough process if you are trying to do single-family homes. The programs use a scoring sheet. Multifamily scores higher than single family because of the number of units to be built. This makes it tough for developing inner-city lots with pollution issues. The lots could sit vacant. Clean-up costs do not make it cost effective for development to happen without clean-up subsidies.”
- “Because it’s focused on a county level, there is a smaller competition pool and has a focus on county-level needs being addressed.”
- “Can prioritize bigger Ramsey County projects that otherwise wouldn’t have enough funding with state and/or federal money.”
- “More people and resources needed to achieve full impact potential.”
- “It is clear that Ramsey County considers ERF to be a ‘side project.’”
- “Hennepin County ERF is more successful. Perhaps Ramsey County ERF could be modeled after Hennepin County, but Hennepin County has more money.”
- “Could streamline the application process by having it online.”

## Section IV: Recommendations

Because of the uniqueness of the ERF program and its limited geographical scope, the program has the potential to address a wide range of specific environmental problems that face local communities in Ramsey County. Based on our research of brownfield cleanup and redevelopment programs in others states, we suggest the following recommendations to improve Ramsey County's ERF program.

### 1. Clearer Program Focus

The scope of properties redeveloped with ERF assistance is quite broad. While this is an undoubted strength of the program, the program could potentially benefit from having a more focused identity. Is the primary purpose of ERF to increase property tax revenue? The number of housing units? The number of jobs? Each of these goals might suggest a narrower focus to the program in order to achieve these specific outcomes. In addition, the appeal of the program to county officials and state legislators, as well as future efforts to assess the impact of the program, might benefit from a sharper focus. Based on our research and case studies in other states, we recommend that Ramsey County consider a **hybrid approach to funding projects** through ERF. For example, a project in the program's focus area could be funded with 100% grants, while a worthwhile project that provides secondary benefits could be funded with 50% grants and 50% low-interest loans.

### 2. Emphasize Generation of Social Benefits

It is important to consider the social and environmental benefits that are realized through ERF funding. Housing prices are, in part, a response to market demand. In the case of increased property values, it's clear that the added value is partly due to the improved living environment around the property. Independent of these property tax effects, the ERF program provides many other social and environmental benefits that may be more difficult to quantify but that are equally important, including improved health from less contaminated water and soil, reduced crime and improved quality of

life from elimination of neighborhood blight, and reduced housing insecurity and homelessness in the area due to provision of more affordable housing.

### **3. Collection of Data after Project Completion**

The case for the continuation of the ERF would be strengthened by the greater availability of relevant data about each project. This analysis was significantly hampered by the lack of original program applications for many of the projects. Moving to an online application would make it easy to retain information for each project in digital format. Even if a hardcopy application continues to be used, it would be relatively simple to scan and retain digital copies of these applications for future reference and analysis.

In order to assess the real impacts of ERF funding, follow-up with developers that received funding is necessary, particularly as this information (unlike property tax revenue) is difficult to assess through other means. It would be helpful if ERF grant recipients were encouraged or required to provide final statistics regarding the number of jobs and housing units created following redevelopment of the property.

### **4. Dedicated administrative oversight**

Through no fault of their own, the current program administrators appear to be juggling multiple projects and priorities, and likely lack the time and resources to ensure the ERF program flourishes. The program would greatly benefit from a single, dedicated administrator. Should resources not permit creation of this position, current program administrators would benefit from prioritizing the organization of current and future data about the program into clear and accessible files for use by future employees and interns. It may be helpful to store data in more usable formats (e.g., Excel spreadsheets versus GIS files) where possible.